

**REPORT OF THE AUDIT OF THE
LEE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2014**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LEE COUNTY SHERIFF

**For The Year Ended
December 31, 2014**

The Auditor of Public Accounts has completed the Lee County Sheriff's audit for the year ended December 31, 2014. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$2,899 from the prior year, resulting in excess fees of \$190,572 as of December 31, 2014. Receipts increased by \$5,954 from the prior year and disbursements increased by \$3,055.

Report Comments:

2014-001 The Sheriff Should Ensure Receipts Are Recorded Properly
2014-002 The Sheriff Should Comply With The Uniform System Of Accounts
2014-003 The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits as of November 7, 2014 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$735,015

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Steve Mays, Lee County Judge/Executive
The Honorable Wendell Childers, Jr., Lee County Sheriff
Members of the Lee County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying statement of receipts, disbursements, and excess fees - regulatory basis of the County Sheriff of Lee County, Kentucky, for the year ended December 31, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



The Honorable Steve Mays, Lee County Judge/Executive
The Honorable Wendell Childers, Jr., Lee County Sheriff
Members of the Lee County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the County Sheriff, as of December 31, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2014, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 20, 2015 on our consideration of the Lee County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Lee County Sheriff's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control over financial reporting and compliance.

The Honorable Steve Mays, Lee County Judge/Executive
The Honorable Wendell Childers, Jr., Lee County Sheriff
Members of the Lee County Fiscal Court

Other Reporting Required by Government Auditing Standards (Continued)

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- 2014-001 The Sheriff Should Ensure Receipts Are Recorded Properly
- 2014-002 The Sheriff Should Comply With The Uniform System Of Accounts
- 2014-003 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

July 20, 2015

LEE COUNTY
 WENDELL CHILDERS, JR., SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2014

Receipts

State Fees For Services:

Sheriff Security Service	\$ 3,090	
Cabinet For Health And Family Services	<u>90</u>	\$ 3,180

Circuit Court Clerk:

Fines and Fees Collected		1,915
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Fiscal Court		76,264
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County Clerk - Delinquent Taxes		36,260
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Commission On Taxes Collected		115,134
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Fees Collected For Services:

Auto Inspections	720	
Accident and Police Reports	160	
Serving Papers	10,657	
Carrying Concealed Deadly Weapon Permits	<u>2,090</u>	13,627

Other:

Add-On Fees	14,155	
Transporting Prisoners	4,850	
Miscellaneous	<u>1,434</u>	20,439

Interest Earned		<u>17</u>
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Total Receipts		266,836
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Less: Statutory Maximum		<u>76,264</u>
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Excess Fees Due County for 2014		190,572
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Payments to Fiscal Court - Monthly		<u>190,572</u>
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Balance Due Fiscal Court at Completion of Audit		<u><u>\$ 0</u></u>
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The accompanying notes are an integral part of this financial statement.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.192 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting receipts and disbursements are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2014 services
- Reimbursements for 2014 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2014

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fee Pooling

The Lee County Sheriff is required by the Fiscal Court to participate in a fee pooling system. Fee officials who are required to participate in fee pooling deposit all funds collected into their official operating account. The fee official is responsible for paying all amounts collected for others. Residual funds are then paid to the County Treasurer on a monthly basis. Invoices are submitted to the County Treasurer to document operating expenses. The County Fiscal Court pays all operating expenses for the fee official.

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent for the first six months and 17.67 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

LEE COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2014
 (Continued)

Note 2. Employee Retirement System (Continued)

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Lee County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Lee County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On November 7, 2014 the Sheriff's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$735,015

Note 4. Asset Forfeiture Account

The Lee County Sheriff's office maintains an Asset Forfeiture Account. This account is funded by proceeds from court orders involved in drug-related convictions. These funds are to be used for law enforcement expenses. The account balance as of January 1, 2014 was \$83. The Sheriff did not receive or expend any funds in 2014. Therefore, as of December 31, 2014, the balance in this account was \$83.

Note 5. Grant Account

The Lee County Sheriff's office received grant proceeds for bulletproof vests from United States Department of Justice. The account balance as of January 1, 2014 was \$637. The Sheriff received an additional \$830 during 2014 and did not expend any funds during the year. Therefore, as of December 31, 2014, the balance in this account was \$1,467.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Steve Mays, Lee County Judge/Executive
The Honorable Wendell Childers, Jr., Lee County Sheriff
Members of the Lee County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the statement of receipts, disbursements, and excess fees - regulatory basis of the Lee County Sheriff for the year ended December 31, 2014, and the related notes to the financial statement and have issued our report thereon dated July 20, 2015. The County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Lee County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Lee County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lee County Sheriff's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, which is described in the accompanying comments and recommendations as item 2014-003 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lee County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2014-001 and 2014-002.

County Sheriff's Responses to Findings

The Lee County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. The Lee County Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

July 20, 2015

COMMENTS AND RECOMMENDATIONS

LEE COUNTY
WENDELL CHILDERS, JR., SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2014

STATE LAWS AND REGULATIONS:

2014-001 The Sheriff Should Ensure Receipts Are Recorded Properly

The Sheriff should ensure all receipts are recorded properly and in the appropriate fee account. All funds received by the Sheriff's office for calendar 2014 were not included on the quarterly report accurately, and are noted as follows:

- The monthly checkouts and fourth quarter report included a \$31,867 erroneous posting for a 2013 disbursement.
- \$8,523 of receipts, including commissions, state payments and county clerk payments, were not included on the 2014 monthly checkouts. These were due to the 2014 fee account but were deposited into the 2015 fee account.

KRS 43.075(3) states the auditor shall determine "whether there is accurate recording of receipts by source". The receipts ledger should only include the appropriate year's receipts. Also, the Sheriff should not close the 2014 fee account until all commissions and other receivables are deposited into it. Had the Sheriff's office posted all receipts to the ledgers properly and agreed them to the bank statement, any errors would have been detected and corrected prior to the audit. All funds received for CY 2014 should have been deposited into the 2014 fee account and paid to the County as excess fees, and not deposited into the 2015 fee account, even though the Sheriff is fee pooling. Depositing correctly helps ensure accurate receipts and helps with budgeting. We recommend the Sheriff ensure all receipts are recorded properly and in the appropriate fee account.

Sheriff's Response: We will leave the account open until the previous year's fees have all been collected and deposited.

2014-002 The Sheriff Should Comply With The Uniform System Of Accounts

The Sheriff did not comply with the uniform system of accounts. The Sheriff prepared monthly checkout sheets but did not prepare a detailed receipts ledger noting each day's collections coded to the appropriate category. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Therefore, the prescribed uniform system of accounts requires receipts to be recorded when received and disbursements to be recorded when paid. By not posting to daily checkouts and to a detailed receipts ledger, the Sheriff is not in compliance with the uniform system of accounts. Furthermore, calculation errors can occur and be more difficult to correct. We recommend the Sheriff comply with the uniform system of accounts.

Sheriff's Response: We will comply with uniform system of accounts.

LEE COUNTY
WENDELL CHILDERS, JR., SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2014
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2014-003 The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties for receipts. Due to the entity's diversity of official operations, small size, and budget restrictions, the Sheriff has limited options for establishing an adequate segregation of duties. Currently, the bookkeeper and a part-time deputy clerk collect receipts, record transactions, make deposits, and post amounts to the receipts ledger. Both employees complete the before mentioned duties and we found evidence of review of each other's work. However, since the majority of receipt procedures are completed by one employee with reviews only being completed when the part-time employee is at work after collections and deposits are made, a lack of adequate segregation of duties still exists. The Sheriff does have some compensating controls in place such as periodically reviewing daily checkout sheets, bank statements, and the receipts ledger. However, these compensating controls were not documented to a level sufficient to give auditors assurance that the risk of material misstatement due to inadequate segregation of duties was mitigated. We recommend the Sheriff's office establish adequate segregation of duties or establish and document compensating controls implemented to offset this significant deficiency. Examples of those compensating controls include:

- The Sheriff should assign the function of depositing cash to other office staff or he should periodically compare the bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. He should document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should reconcile monthly reports to source documents and receipts and disbursement ledgers. This should be documented by initialing the monthly reports and ledgers. The Sheriff could also assign the function of comparing reports to source documents and ledgers to other office staff.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. The Sheriff should document this by initialing the bank reconciliation and the balance in the checkbook.
- All deposit slips should include checks received from customers listed individually.

Sheriff's Response: Copies of each check is included with daily report. A daily receipt book is also kept, but hereafter we will list checks separately.

